Instructions for Page 4 of Application (FINANCIAL STATEMENTS)

Part of determining whether an applicant is fit to become a household goods mover involves provision of information about financial capability. If an applicant does not have the financial resources to start and operate a business, that business is likely to fail and will be unable serve the household goods moving needs of the public.

As part of the application process, applicants must submit two standard financial reports which ODOT uses to make this determination. They are an **Income Statement** and a **Balance Sheet**. For applicants that have been in business for a while, the income statement should show the results of the most recently completed year of operations, and the balance sheet should show the results as of the last day of the most recently completed year of operation.

For businesses just starting out, or that have not been in business for at least a year, the income statement and balance sheet should be constructed on a "pro forma" basis. This means that the applicant will need to estimate revenues and expenses for their first complete year of operation in the income statement, and project the financial results of that first year of operations in the balance sheet.

An I**ncome Statement** is also called a profit and loss statement. It is separated into two parts, the revenue or moneys coming into your business and the expenses or the moneys going out of your business. Your net income is the revenue subtracted from the expenses for your business. This can be either a negative or positive number amount. Revenues include items such as your company's commissions earned and sales of goods or services. Expenses include things such as equipment rental, wages and utilities. Profit or net income helps buy needed assets or build retained earnings on the balance sheet.

The following are definitions of some terms used in an Income Statement:

- **Net Sales** (a.k.a. sales or revenue): These all refer to the value of a company's sales of goods and services to its customers for the period of time covered by the report. For this ODOT application, the time period is annual.
- **Cost of Sales** (a.k.a. cost of goods (or products) sold (COGS), and cost of services):. For wholesalers and retailers, the cost of sales is essentially the purchase cost of merchandise used for resale. For service-related businesses, cost of sales represents the cost of services rendered or cost of revenues.
- **Gross Profit** (a.k.a. gross income or gross margin): A company's gross profit does more than simply represent the difference between net sales and the cost of sales. Gross profit provides the resources to cover all of the company's other expenses. Obviously, the greater and more stable a company's gross margin, the greater potential there is for positive bottom line (net income) results.
- **Selling, General and Administrative Expenses**: Often referred to as SG&A, this account comprises a company's operational expenses. Financial analysts generally assume that management exercises a great deal of control over this expense category. The

trend of SG&A expenses, as a percentage of sales, is watched closely to detect signs, both positive and negative, of managerial efficiency.

- **Operating Income**: Deducting SG&A from a company's gross profit produces operating income. This figure represents a company's earnings from its normal operations before any so-called non-operating income and/or costs such as interest expense, taxes and special items. Income at the operating level, which is viewed as more reliable, is often used by financial analysts rather than net income as a measure of profitability.
- **Interest Expense**: This item reflects the costs of a company's borrowings. Sometimes companies record a net figure here for interest expense and interest income from invested funds.
- **Depreciation Expense**: This item reflects the expiration of usefulness of a tangible asset like a truck. Whatever it costs new, its usefulness (utility or value) declines over time until it is worth nothing or only salvage value. Internal Revenue rules stipulate what the useful life is for various assets and the methods used to recognize this depreciation in a business income statement as a non-cash expense. Depreciation expense may also be included in the cost of sales.
- **Pretax Income**: An important indicator of profitability is, earnings before income tax expense". Subtracting taxes paid (or anticipated to be paid) yields net income
- **Income Taxes**: As stated, the income tax amount has not actually been paid - it is an estimate, or an account that has been created to cover what a company expects to pay.
- **Special Items or Extraordinary Expenses**: A variety of events can occasion charges against income. They are commonly identified as restructuring charges, unusual or nonrecurring items and discontinued operations. These write-offs" are supposed to be one-time events.
- **Net Income** (a.k.a. net profit or net earnings): This is the bottom line, which is the most commonly used indicator of a company's profitability. Of course, if expenses exceed income, this account caption will read as a net loss. Net income (loss) becomes part of a company's equity position as "retained earnings".

Sample Income Statement

A Sample Income Statement is the amount of revenue earned and expenses incurring by a business over a period of time. An example of a sample income statement format is provided below as "Figure A". It covers the results of operations for a hypothetical company (Applicant HHG Co.) for Fiscal Year (FY) 2009. While the specific format and level of detail is not specified, the income statement needs to show the amount of revenue earned and expenses incurring by a business over a period of time. Detail provided about types and amounts of revenues and types of expenses help in analyzing financial fitness.

Figure A: Example Income Statement
Applicant HHG Co.. FY Ending 2009

(Figures USD)	***2009***
Revenues	
Local Cartage Moving Sales	150,000
Other Than Local Cartage Sales	120,000
Interstate Moving Sales	50,000
Warehousing Sales	25,000
Other Sales Revenue	25,000
Gross Income	370,000
Operating Expenses (SG&A)	
Salaries & Wages	180,000
Fringe Benefits & Payroll Taxes	30,000
Fuel	50,000
Maintenance Expense	8,000
Utilities	1,000
Rent	3,600
Insurance	5,000
Total SG&A	277,600
Operating Income	92,400
Other Income (Expense)	10,000
Extraordinary Gain (Loss)	(2,500)
Interest Expense	(6,000)
Depreciation Expense	(8,000)
Net Profit Before Taxes (Pretax Income)	85,900
Taxes	(33,500)
Net Income	52,400

A **Balance Sheet** is a “snap shot picture” of your business' financial situation at a specific time only. This means that your balance sheet may differ greatly from day to day, or month to month, although most businesses only need to create a balance sheet once a year. Balance sheets used in business plans are called pro forma balance sheets, and essentially take the information projected in an income statement and cash flow projection and compile them into one, easy-to-read document reflecting what the financial condition will be at the end of a particular

The balance values all assets owned (cash in the bank, money due from others, equipment and real property owned). It also values all liabilities (money owed to others). The difference between total assets and total liabilities is net worth. If assets exceed liabilities, then net worth (aka retained earnings) is positive and the business is solvent. If liabilities exceed assets, then the business has no net worth, and is insolvent. Insolvent businesses are not financial fit by definition.

The following defines some terms used in a balance sheet.

ASSETS

- Current assets + cash in the bank + petty cash = net cash (sum of the previous three items);
- Inventory + accounts receivable + net cash = total current assets
- Fixed assets + land + buildings - depreciation = net land and buildings
- Equipment - depreciation = net equipment
- Total assets

LIABILITIES

- accounts payable + wages payable + taxes payable = total current liabilities
- long term loans + mortgage = total long term liabilities
- total liabilities

EQUITY

- Owners equity + owners draws + retained earnings + current earnings = total earnings
- Total equity

At the end of your balance sheet, if ASSETS = LIABILITIES + EQUITY, then you've done it properly. Congratulations!

Sample Balance Sheet

An example of a balance sheet format is also provided below as “Figure B”. It shows the financial condition of the same hypothetical company (Applicant HHG Co.) as of the last day of Fiscal Year (FY) 2009. The example is a standard format, and may need altering to fit your specific businesses' setup, goals and requirements, but essentially the "right" balance sheet format for your business will include all of the accounts listed in your General Ledger.

At the top of your balance sheet, list your company name on one line, and the date the balance sheet is relevant for on the next. Then, create a section each for your assets, liabilities and equity. In each section the following items should be listed in columnar format, being added or substracted as demonstrated in this balance sheet format:

Figure B: Example Balance Sheet
Applicant HHG Co.- End of Year FY 2009

(Figures USD)	***2009***
Assets	
Cash	5,000
Receivables	1,000
Fixed Assets (net of depreciation)	100,000
Liabilities	
Payables	4,000
Loans	70,000
Shareholder Equity	32,000
Total Liabilities and Shareholder Equity	106,000